



# Australian Taxation



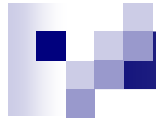
*Presented by:*

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Principal

**GC & Associates Pty Limited**

Accountants, Tax Agents & Business Advisors



# **Property Investments**

## **... Tax Smart**



# **Australian properties**

Very popular with local and overseas  
investors

First home

Second investment ahead of shares



# Australian properties

Offers many attractions

- less volatile than shares
  - easy to gear

Good potential

- Capital Growth
- Rental Income

Tax Benefits



# Facts ...

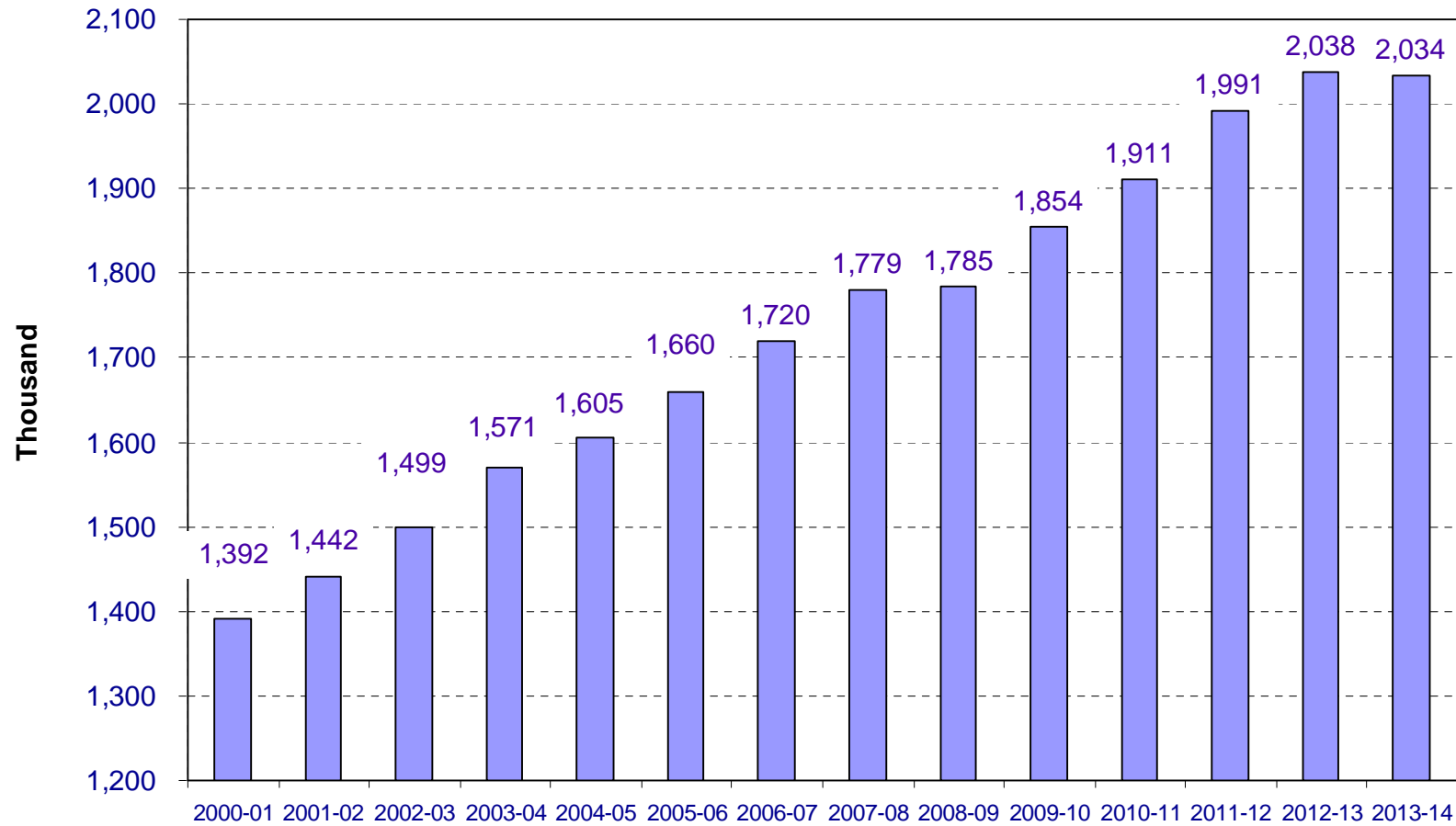
According to Australian Taxation Office ...  
in 2013-14:

- Over 2 million property investors
- Over \$38 billion rental income reported
- Approx. \$42 billion rental deductions claimed
- Net rental income is approx. **\$4 billion (LOSS)**

# Statistics

Source: ATO Taxation Statistics

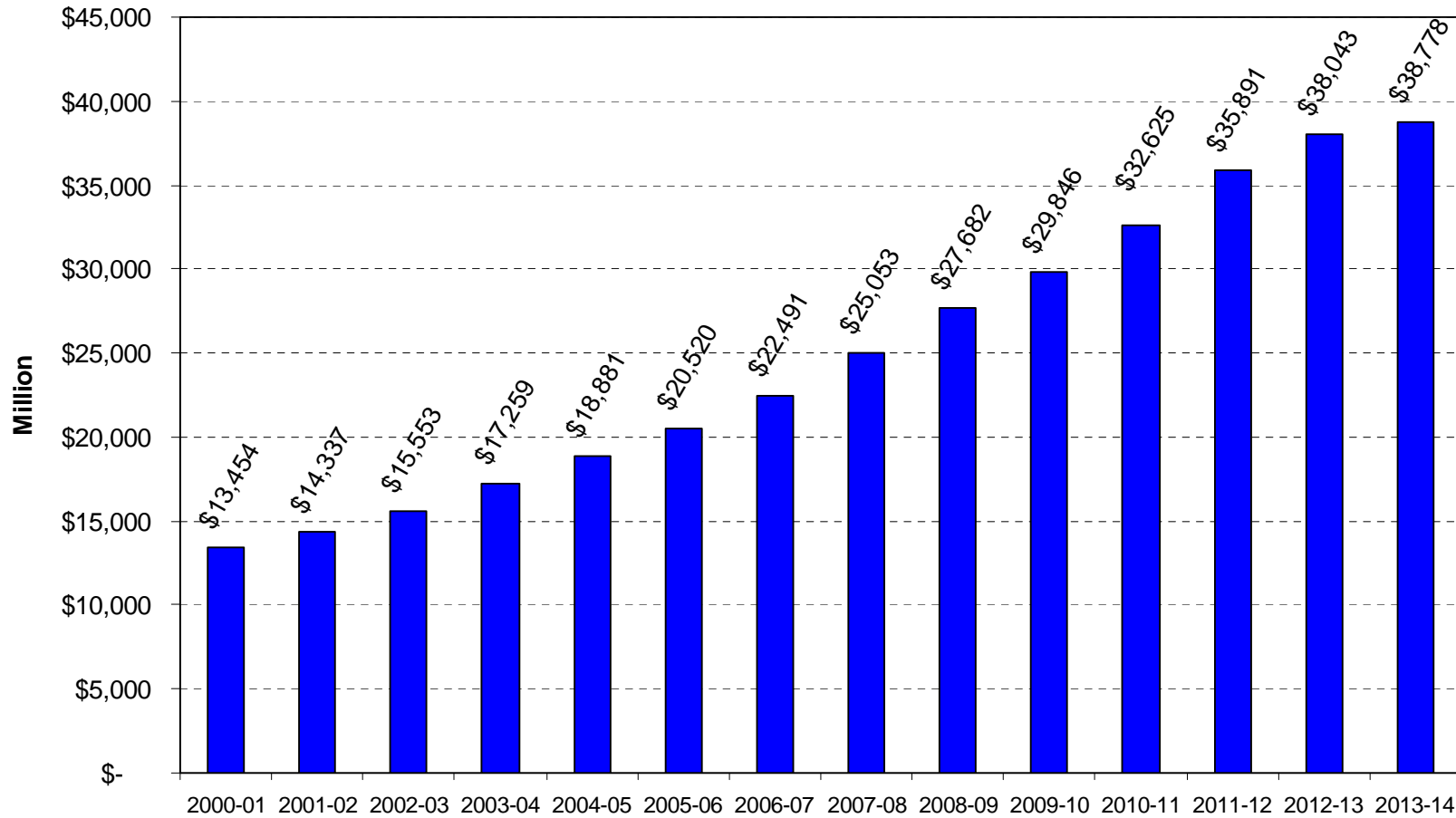
## Number of Rental Property Investors



# Statistics

Source: ATO Taxation Statistics

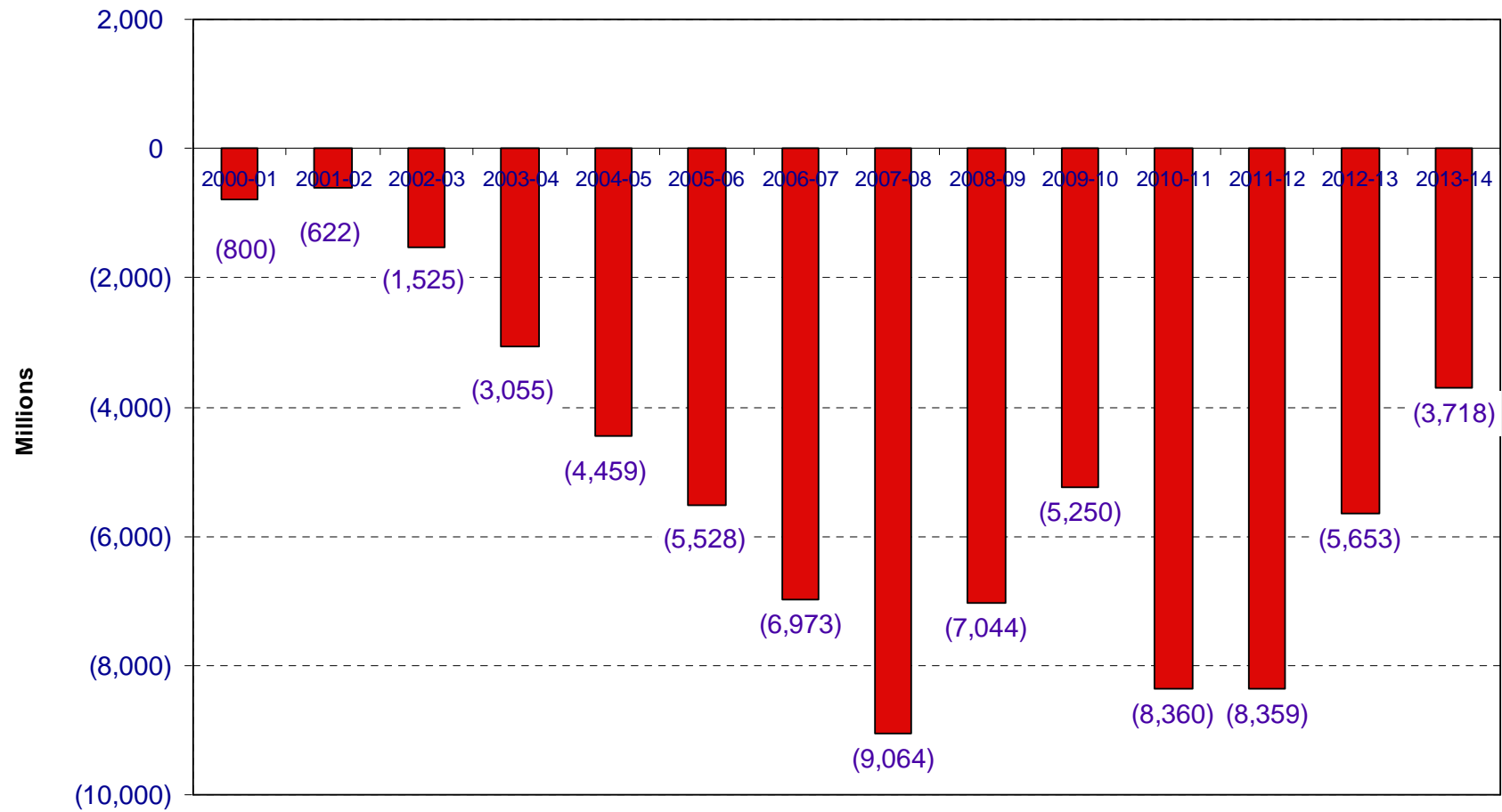
Total Gross Rental Income from Investment Properties



# Statistics

Source: ATO Taxation Statistics

## Total Net Rental Income from Investment Properties

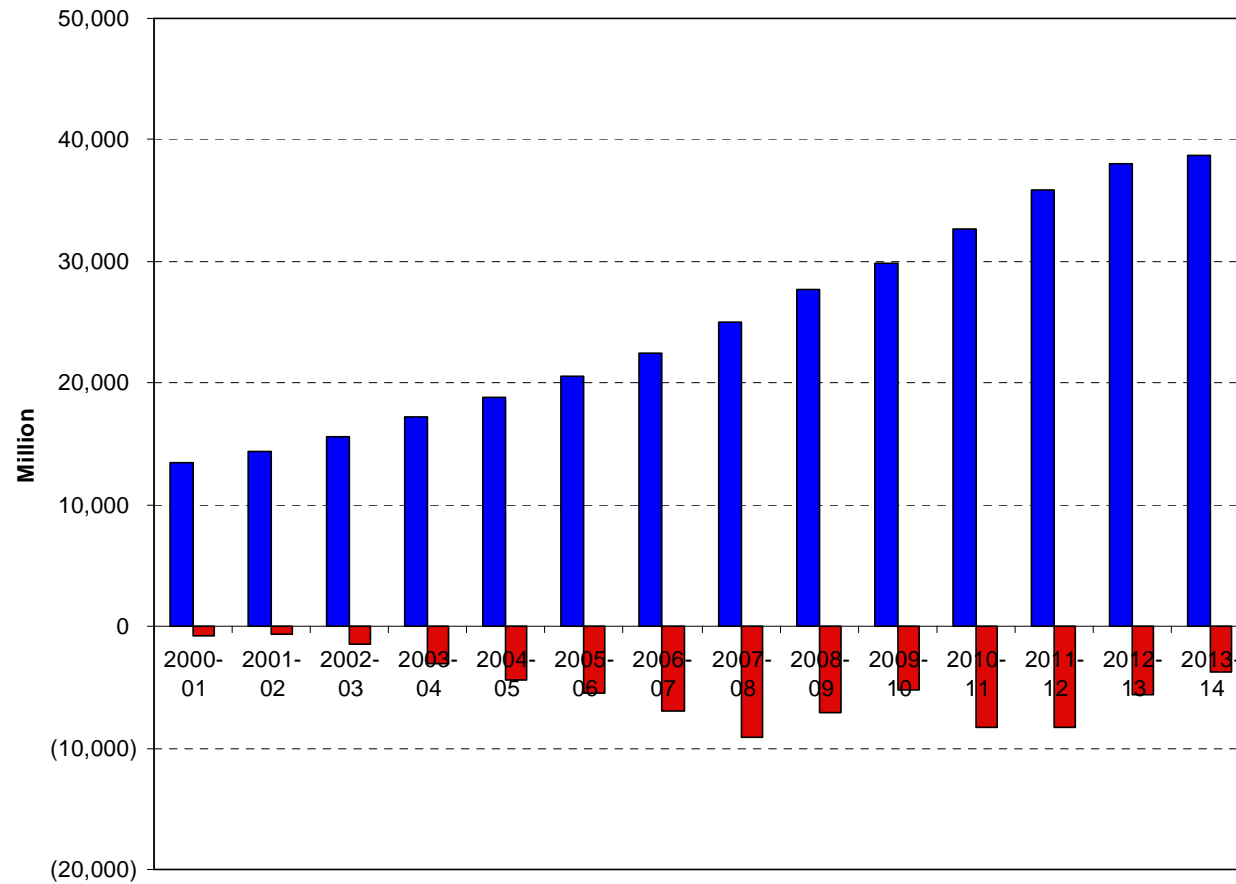




# Statistics

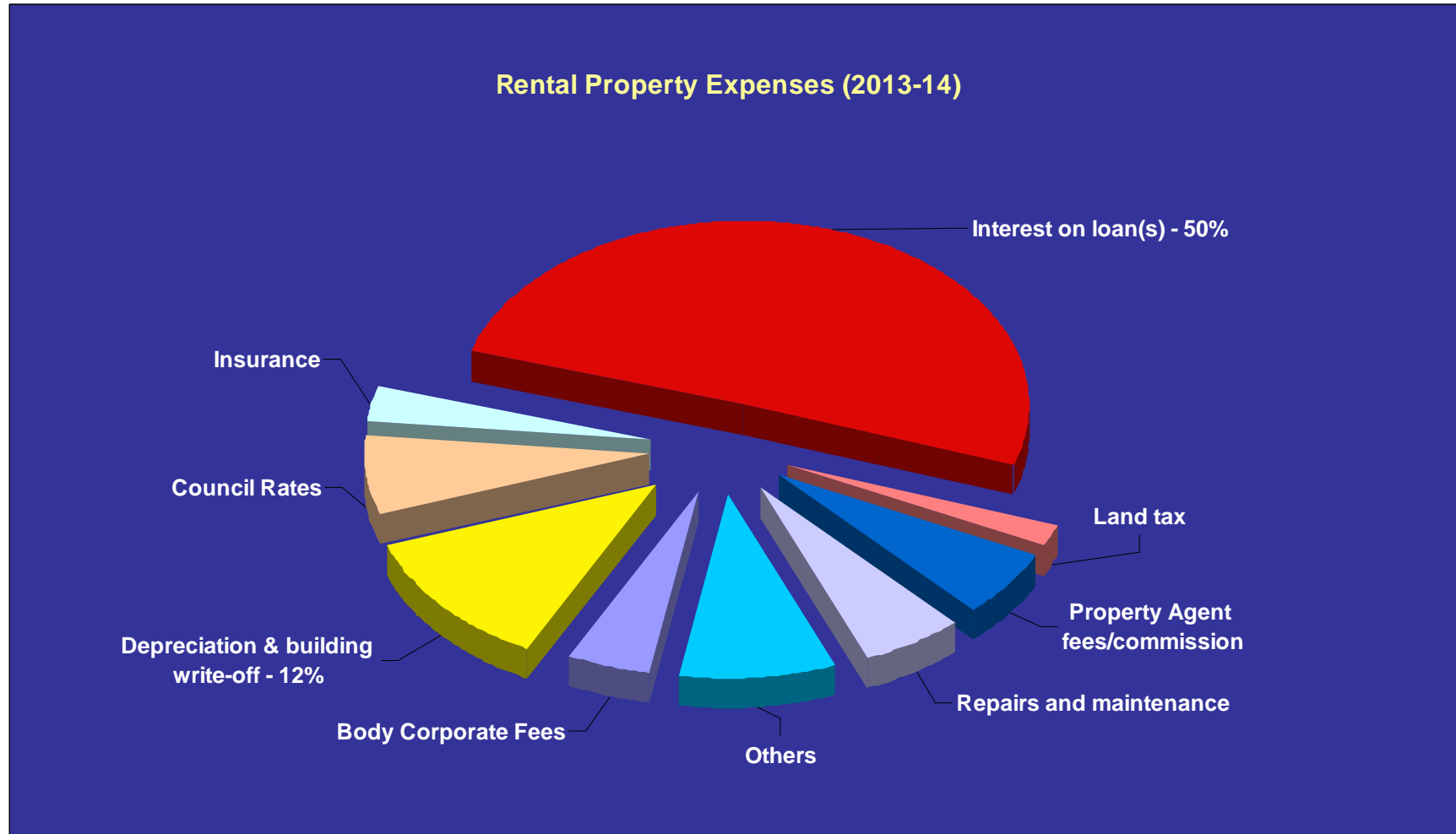
Source: ATO Taxation Statistics

Gross Rental Income vs Net Rental Income



# Statistics

Source: ATO Taxation Statistics





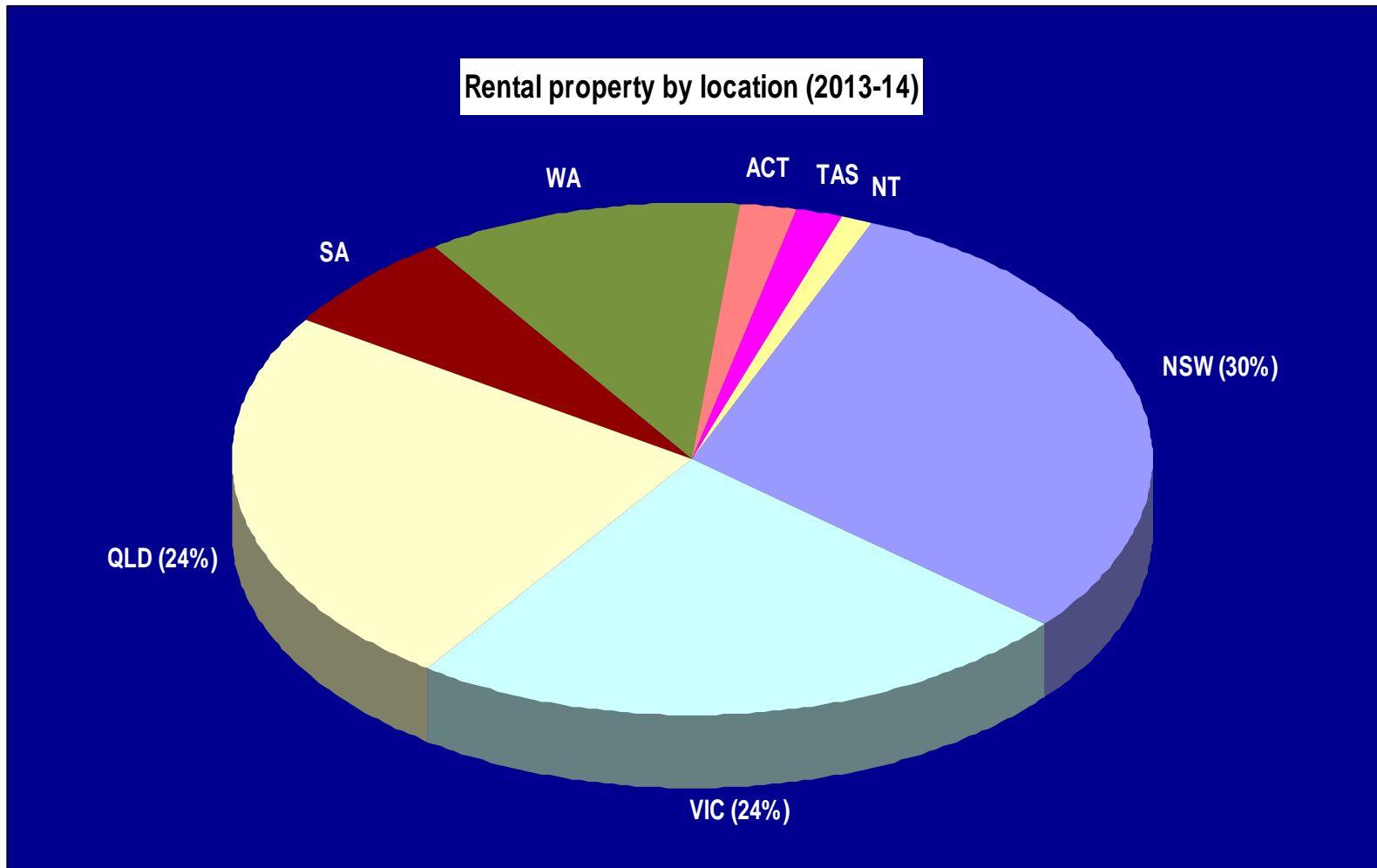
# Statistics

Source: ATO Taxation Statistics

Body Corporate Fees	\$	2,007,106,333	5%
Depreciation & building write-off	\$	5,056,904,991	12%
Council Rates	\$	2,887,561,042	7%
Insurance	\$	1,357,835,164	3%
Interest on loan(s)	\$	21,089,637,141	50%
Land tax	\$	809,216,734	2%
Property Agent fees/commission	\$	2,419,112,144	6%
Repairs and maintenance	\$	2,423,589,231	6%
Others	\$	3,758,154,149	9%
	\$	41,809,116,929	100%

# Statistics

Source: ATO Taxation Statistics





## As for us ...

GC & Associates handles more than 3,000 income tax returns with rental properties investment.

Each of our clients have average of three (3) rental properties.



# Foreign Residents

Tax on Australian source income only

- Rental properties income
- Salaries & Wages

Withholding tax

- Interest – 10%
- Dividend - Franked (tax paid 30%)
- Dividend - Unfranked 15%



# Tax Deductions





# Tax Deductions

## What I can claim straight away

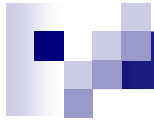
- Interest on loan
- Costs of repairs and maintenance
- Tenancy cost (agent's fees, legal cost on lease agreement)





## Typically:

- Advertising for tenant
- Bank fees & charges
- Body corporate fees & charges
- Cleaning
- Council rates
- Electricity & gas
- Gardening and lawn mowing
- Insurance (building, contents & public liability)
- Interest on loans



- Lease documents expenses (preparation, registration & stamp duty)
- Legal expenses
- Property agent's fees & commission
- Quantity surveyor's fees
- Repairs & maintenance
- Secretarial & bookkeeping fees
- Security expenses
- Stationery & postage
- Telephone
- Water charges



# Tax Deductions

What I can claim over a number of years

- Cost of depreciating assets (plant & equipment, fixture & fitting, etc)
- Cost of building construction
- Borrowing costs (stamp duty on mortgage, bank loan approval fees, etc.

## BMT deduction assessment

Property type	Purchase price	First year deductions	Five years cumulative
One bed apartment	\$450,000	\$14,200	\$56,900
Two bed apartment	\$550,000	\$15,400	\$61,950
Three bed apartment	\$700,000	\$16,300	\$67,600
Townhouse	\$500,000	\$10,250	\$47,200
Townhouse	\$600,000	\$11,200	\$48,850
Residential house	\$500,000	\$10,100	\$46,800
Residential house	\$600,000	\$10,950	\$48,200

*\*Deduction assessment is based on new properties*



## Capital Work Allowance

- 25 or 40 years
- Total deductions cannot exceed the construction expenditure
- Typical construction expenditures:
  - ⇒ Building or extension
  - ⇒ Alterations
  - ⇒ Structural improvements



## Depreciation & Write Off

Property owner can claim

- write off in plant and equipment
- capital work allowance

Involves writing off the cost of the item over a number of years or the effective life of the asset



## Typical plant & equipment:

- hot water service
- ceiling fans
- dishwasher
- carpet
- blinds
- exhaust fans
- washing machines
- cooktops
- ovens
- rangehood
- smoke alarms
- air conditioner
- light shades
- microwaves
- floating timber floors
- microwaves
- vinyl
- furniture package
- clothes dryer
- freestanding spa
- curtains
- security systems



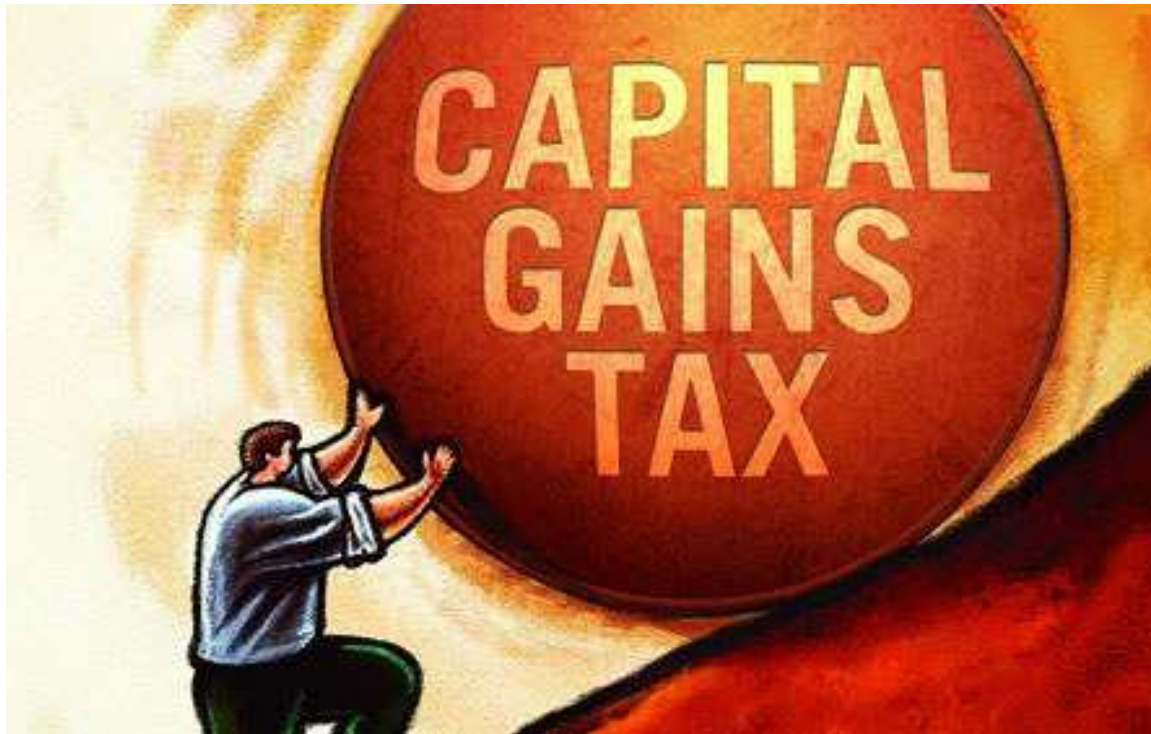
# Tax Deductions

What I cannot claim

- Expenses deem private
- Land costs



# Capital Gain Tax





# Capital Gain Tax

## Basics

... tax on capital gain arises from the disposal (sale) of an asset

... including investment property acquired after 19 September 1985



# Capital Gain Tax

## Exemption

- Pre-20 September 1985 property
- Property for private use (family home)
  - Principal Place of Residence (PPR)
- Others



# Capital Gain Tax

## Non-Residents

- No longer eligible for 50% CGT discount on capital gains earned after 7 May 2012
- Still entitled to a discount on capital gains accrued before 8 May 2012, provided they obtain a market valuation
- Law passed on Friday, 28 June 2013



# Capital Gain Tax

## Example

- John is a non-resident for tax purpose of Australia.
- On 1 August 2006, John purchased an apartment in Melbourne for \$400,000.
- John obtains a market valuation of the apartment on 9 May 2012. The market valuation is \$500,000.
- John sells his apartment on 1 June 2017 for \$650,000.
- John makes a total capital gain of \$250,000. Capital gain attributable to the period prior to 8 May 2012 is \$100,000.



# Capital Gain Tax

## Under the old law

John can apply 50% CGT Discounts in respect to all capital gains.

John's assessable capital gain is \$125,000 (50% of \$250,000).



# Capital Gain Tax

## Under the new law

John can only apply 50% CGT Discount in respect to \$100,000 as it is attributable to the period prior to 8 May 2012.

John's assessable capital gain is \$200,000 (50% of \$100,000 + 100% of \$150,000).

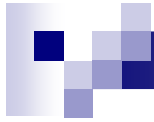


# Capital Gain Tax

## **Selling of property**

- Use of carried forward loss (rental) to offset future capital gains
- DON'T SELL! Property is long term investments.
- Re-invest using equity of pay-off properties
- Time your selling





**Update**



# **FIRB Changes**

Foreign Investment Review Board  
changes

Tightening of foreign investment rules  
with emphasis on residential and  
agricultural sectors



# Reporting

Australian Taxation Office (ATO) will process foreign investment data in relation to residential real estate

1 December 2015, ATO taken over all residential land acquisition functions of FIRB



# Reporting

ATO better resourced to access information through data matching with various state and federal agencies, immigration and tax records

**Wider implication than just FIRB approval**



# Application Fees

## Residential properties

1. \$5,000 for a property valued < \$1 mil.
2. \$10,000 for a property > \$1 mil., then a \$10,000 incremental fee increase per additional \$1 mil.

Business \$10,000 - \$100,000

Agriculture \$5,000 - \$100,000



# Capital Gain Withholding Payment

Applicable to **foreign resident** dispose of certain taxable Australian property.

Purchaser will be required to withhold and pay to ATO 10% of the purchase price\*.



# **Capital Gain Withholding Payment**

Apply to contracts entered into on or  
after 1 July 2016.

Legislation is now passed as law as of  
25 February 2016.



# Assets

Limited to taxable Australian property:

- Real property (residential and commercial);
  - Grant of lease over real property;
    - Mining rights;
- Interests in Australian entities (property or interests) – indirect interest;
- Options or rights to acquire (property or interests).





# Exclusions

- Real property transaction with a market value under \$2 million;
  - Transactions listed on an approved stock exchange;
  - Foreign resident vendor is under external administration or in bankruptcy.



# 2016-2017 Victorian State Budget

Released on 27 April 2016 confirms

- Increase of land transfer surcharge (also know as Stamp Duty) from 3% to 7%, effective on 1 July 2016
- Absentee owner land tax surcharge on foreign purchasers and landowners from 0.5% to 1.5% from the 2017 tax year.



# Latest - Victoria


## **Changes to the off-the-plan stamp duty concession for property purchasers**

- Effective from 1 July 2017
- Practical effect is that off-the-plan concession will be not available to local investments in residential property, foreign investments in residential property, or commercial, industrial, retail and other non-residential property acquisitions.
- Off-the-plan concession will be limited to individuals who qualify for principal place of residence (PPR) stamp duty concession or the first home buyer stamp duty concession.



# Latest - Victoria

- \$750,000.00 for a first home buyer stamp duty concession or exemption
- \$550,000.00 for a principal place of residence stamp duty concession or exemption
- From 1 July 2017, foreign investors and purchasers are required to pay:
  - 7% foreign purchaser additional stamp duty,
  - 1.5% absentee owner surcharge on land tax (if applicable), and
- If a property is vacant for more than 6 months then a **NEW** 1% vacant property tax is payable, calculated on the capital improved value of the property.



# 2016-2017 Queensland State Budget

Released on 17 June 2016 confirms

- An additional 3% stamp duty will apply to acquisition of direct or indirect interest in residential property from 1 October 2016.



# 2016-2017 NSW State Budget

Released on 21 June 2016 confirms

- Introduction of Foreign Investor Surcharge (“Surcharge Purchaser Duty”) of 4% to all acquisition of NSW residential real estate by foreign person made on and after 21 June 2016.
- Abolition of duty deferral for off-the-plan purchases. No longer available foreigner.



# 2016-2017 NSW State Budget

Released on 21 June 2016 confirms

- Land Tax Surcharge of 0.75% will apply to holding of NSW residential land by foreign persons. This is in addition to ordinary land tax. No tax-free threshold and no Principal Place of Residence exemption is available for foreign person in respect to the land tax surcharge.

# Tax Filing







# Income Tax lodgement

- ❖ Financial year: 1 July – 30 June
- ❖ Due date for individual income tax
  - 31 October
  - Tax Agent's EOT



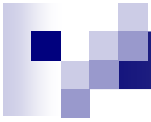
# **Income Tax rates**

- ❖ Resident
- ❖ Foreign resident



# Get started ...

- ❖ Tax File Number
- ❖ Tax information ... checklist
- ❖ Tax Depreciation Schedule
- ❖ Frequently Asked Question



**Questions?**





# Thank you!!



## **GC & Associates Pty Limited**

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